

Message Text

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ACTION NEA-10

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E.O. 11652:N/A

TAGS: EIND, ECON, EINV, CE

SUBJECT: GOVERNMENT OF SRI LANKA (GSL) TAKES OVER TEXTILE FIRM

REF: (A) COLOMBO 293

1. LOCAL PRESS HAS CARRIED GSL ANNOUNCEMENT OF TAKEOVER AS OF MIDNIGHT MARCH 10 OF WELLAWATTE SPINNING A J WEAVING MILLS, LTD., A MAJOR CEYLON-OWNED COTTON TEXTILE MANUFACTURER EMPLOYING ABOUT 2,500 PERSONS. ACTING FINANCE MINISTER NEALE DE ALWIS (FINANCE MINISTER BANDARANAIKE IS IN LONDON FOR EYE SURGERY) ORDERED TAKEOVER UNDER PROVISIONS OF 1972 BUSINESS ACQUISITION ACT WHICH GIVES GOVERNMENT VIRTUAL BLANKET NATIONALIZATION POWERS BUT DOES PROVIDE FOR COMPENSATION.

2. TAKEOVER FOLLOWS MONTHS OF WELL PUBLICIZED DEBATE AND NEGOTIATIONS BETWEEN GSL OFFICIALS AND WELLAWATTE OWNERSHIP. WELLAWATTE CHAIRMAN IS N.U. JAYAWARDENA ONE OF MOST PROMINENT MEMBERS OF PRIVATE SECTOR. HIS SON IS FINANCE MINISTRY SECRETARY LAL JAYAWARDENA.

3. N.U. JAYAWARDENA'S MAIN CONTENTION HAS BEEN THAT GOVERNMENT PRICE CONSTRAINTS AND OTHER CONTROLS ADDED TO COMPETITION FROM STATE -OWNED MILLS MAKES WILLAWATTE LIMITED OFFICIAL USE

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UNPROFITABLE, ESPECIALLY SINCE IT IS OLD HIGH COST

OPERATION. GOVERNMENT'S PRIMARY POINT HAS BEEN THAT EMPLOYMENT FOR 2,500 PERSONS CANNOT BE JEOPARDIZED.

4. IN NOVEMBER 1975 N.U. JAYAWARDENA ASKED GSL FOR PERMISSION TO LAY OFF 1,500 OF PLANT'S WORKERS. ONLY OTHER ALTERNATIVES, HE SAID AT TIME, WERE TO CLOSE PLANT OR SELL IT TO GOVERNMENT. DOMINANT UNION, AFFILIATE OF COMMUNIST PARTY/MOSCOW LABOR FEDERATION, THEN CALLED FOR IMMEDIATE TAKEOVER BUT GSL, AFTER REFUSING PERMISSION TO LAY OFF WORKERS, AGREED TO GRANT SHORT TERM LOANS TO COVER LOSSES UNTIL PLANT FINANCIALLY VIABLE. IN RETURN, WELLAWATTE WOULD MAKE CERTAIN MANAGEMENT AND PRODUCTION CHANGES.

5. ACCORDING MARCH 10 GSL ANNOUNCEMENT, WELLAWATTE HAD ASKED FOR FURTHER LOANS IN JANUARY -FEBRUARY 1976 WITHOUT HAVING MADE ALL CHANGES AGREED TO. IN ORDER TO KEEP WORKERS EMPLOYED, GSL THEREFORE TOOK OVER. IN SAME ACTION, GSL ACQUIRED SUBSIDIARY FIRM AND SMALL ASSOCIATED FIRM, BOTH ALSO IN TEXTILES. GSL SAID THIS WAS NECESSARY TO COVER WELLAWATTE'S TOTAL ACCRUED LIABILITIES.

6. COMMENT: AS PRESS HERE POINTS OUT, THIS IS THIRD BUSINESS ACQUISITION ACT TAKEOVER BY GSL SINCE PRIME MINISTER EXPELLED TROTSKYITE MARXIST LSSP FROM COALITION IN SEPT, 1975. OTHER TWO WERE COLOMBO COMMERCIAL (SEE REFTTEL) AND A CERAMIC ROOFING TILE FACTORY. ALTHOUGH WE HAVE NO COMMENT FROM GSL OFFICIALS ON WELLAWATTE TAKEOVER, WE SURE THEY WOULD BE CONTENT THAT EACH ACQUISITION CAUSED BY EXTREME PROVOCATION OR NECESSITY AND THAT TAKEOVERS HAVE BEEN MADE SELECTIVELY ON MERITS OF EACH CASE. STILL IT CLEAR THAT IMPRESSION IS BEING REINFORCED THAT GSL REGULARLY AND PRECIPITOUSLY NATIONALIZES MAJOR PRIVATE SECTOR FIRMS. THIS IS REFLECTED IN FOREIGN FINANCIAL PRESS AND SUCH PUBLICATIONS AS RECENT INTERNATIONAL ECONOMIC NEWSLETTER FROM MAJOR AMERICAN BANK. WITH TABLING LIMITED OFFICIAL USE

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OF FOREIGN INVESTMENT ACT BEFORE NATIONAL ASSEMBLY NOW DELAYED UNTIL FINANCE MINISTER RETURNS, PROBABLY IN EARLY APRIL (SEE SEPTTEL), WELLAWATTE TAKEOVER WILL FURTHER DAMAGE EFFORT TO CARRY OUT GSL'S STATED INTENTION TO IMPROVE FOREIGN INVESTMENT CLIMATE. VAN HOLLEN

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